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Fact Sheet: A Tea Party Default Would Hurt Middle-class Families

The American people have already fought long and hard to come back from the worst recession since the Great Depression. The last thing we need is for reckless, irresponsible Tea Party Republicans to trigger an economic collapse that would be worse than the 2008 financial crisis. A default crash would be an economic catastrophe, and no one will feel the pain more than America's middle-class families.

A Default Would Tighten the Middle-class Squeeze

The economy is getting stronger, but middle-class families are still being squeezed. Our nation's job growth, unemployment levels, and total hours worked are in the best shape they've been since 2008. However, middle-class incomes have flat-lined. Recent data released by the US Census Bureau shows that the typical American family now makes less than it did in 1989. [Third Way, 9/18/13; New York Times, 9/10/13; Washington Post, 9/17/13]

Default would make homeownership more expensive for middle-class families. Homeownership rates dropped to roughly 65.5% in 2012, down from a high of 69% in 2005. Including those that are in serious danger of foreclosure, ownership rate is closer to 63.3%. In particular, ownership rates for married couples with children have dropped 5.1% from their previous high. A default would make homeownership barriers all the more insurmountable. [CNN, 9/11/12]

- **Default could increase the lifetime cost of a loan by at least $19,000.** After the 2011 showdown, mortgage spreads jumped by 70 basis points, which would have added about $100 per month to the cost of a typical mortgage. Conservative estimates showed that a default would result in spreads jumping by only 50 basis points, which would increase the lifetime cost on a new home loan of $176,900 by $19,720. [Third Way, 10/11/13; Treasury, 10/13]

Default would make a college education more expensive for millions of students. For the 2012-2013 school year, in-state tuition and fees averaged $8,665, a 4.8% increase from the previous year. Compared to a decade ago, this represents a 67% jump in cost – far faster than costs for gasoline and health care. Of the 20 million Americans that attend college every year, at least 66% of students rely on loans to finance their higher education. A default would only exacerbate skyrocketing college costs and saddle students with more debt. [College Board, 2012; Departments of Treasury & Education, 12/12; NY Times, 3/2/12; CAP, 5/16/13]

- **Default could cost undergraduates at least $1,000 and graduate students $5,000.** During the last debt limit impasse, JP Morgan projected that default would trigger a jump of 0.5% in interest rates on US treasuries. With this addition, an undergraduate borrower taking out the maximum in subsidized and unsubsidized loans would be hit with an additional $1,000 in interest during repayment. For a graduate student starting a two-year program next year and taking out the maximum unsubsidized loan, default would cost an additional $5,000 in interest payments. If Treasury rates were to rise by a full percentage point, these figures would jump to $2,000 and $10,000, respectively. [JP Morgan, 4/19/11; TICAS, 10/10/13]

Default hammers the hard-earned savings of near-retirees. Surveys have shown that with added day-to-day financial pressures, and worries about job security brought on by the recession, most American workers are not saving enough for their retirement. While balances on the average 401(k) are climbing, they're still insufficient for meeting retirees' expenses. For example, the average balance for steady savers has recently risen to $211,800, but the average 65-year-old couple retiring today will spend roughly $220,000 on health care costs alone. A default would cause a violent market reaction that could wipe out a substantial amount of investments, including 401(k) retirement plans. Roughly 51 million American workers are active 401(k) participants. [Today Money, 8/27/13; ICI]

- **Retirement Savings Hammered:** The violent market reaction could dramatically shrink the value of the S&P 500 index, and average 401(k) could lose thousands of dollars. A conservative estimate projected a 6.3% loss in the S&P would cost a portfolio worth about $175,962 approximately $11,085. Deutsche Bank recently found that brinksmanship over whether we will pay our bills could lead to a 3-4% decline in the S&P 500, while a missed interest payment could cause as much as a 45% drop. In the worst case scenario, this would result in more than a $79,000 hit to the typical 401(k). [Third Way, 10/11/13; EBRI, 12/12; Business Insider, 10/7/13]

Families could owe $156 more per year in interest on their credit card bills. According to a 2010 survey from the Fed, roughly 39.4% of all American families have a credit card balance, and the median value of that balance is $2,600. During the last debt limit impasse, JP Morgan projected that a default would trigger a jump of 0.5% in interest rates on US treasuries. If credit cards saw a similar increase in interest rates, the typical credit card holder would see an increase in interest owed of $156 per year. [Fed, 7/19/12; JP Morgan 4/19/11]

Default could increase the cost to consumers for some goods. In a recent study released by the US Treasury, they stated "a default would be unprecedented and has the potential to be catastrophic…the value of the dollar could plummet." A range of estimates demonstrate that a default would seriously weaken the dollar. This would impact the price of goods that are imported from around the globe to our store shelves. Oil, cars, pharmaceutical products, computer products, and apparel all rank among our nation's prominent imports. [Treasury, 10/3/13; Yahoo Finance, 10/4/13; Commerce, 9/4/13]

- In 2011, J.P. Morgan found that a government shutdown – economically less severe than a default – led to a 3-7% decline in the dollar. [J.P Morgan, 2/25/11]

- Moody's Mark Zandi has projected that if the debt limit went unchanged through mid-November, it would cause the dollar to sharply decline "falling as much as 20% in value." [Mark Zandi, 10/9/13]

- The IMF has, as an illustrative example, simulated a U.S. sovereign debt crisis that included a 13% fall in the dollar. [Deutsche Bank, 10/9/13]